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SUBJECT: ONE SOUTH AFRICAN VIEW OF THE GLOBAL ECONOMY AND
THE G-20 PROCESS

Classified By: Economic Counselor Perry Ball, reason 1.4 (b) and (d)

11. (C) Summary: The South African government is concerned that the global economic crisis might significantly worsen in 2009, causing world trade to implode and capital flows to emerging markets to dry up. Protectionism in the U.S. and Europe is a major concern. The SAG believes the G-20 should endorse moves to reform IMF governance and to increase the capital of the IMF and the regional development banks. End Summary.

Things Could Get Much Worse

12. (C) The South African government is concerned that the global economic crisis might significantly worsen in 2009, according to National Treasury Chief Director (International Finance) Michael Sachs. Sachs spoke with Deputy Economic Counselor on February 23.

13. (C) Of the crisis, Sachs said, "We are at the end of the beginning, not the beginning of the end." He outlined a worst-case scenario where additional bank failures and growing protectionism pull the world into a prolonged slump ("like Japan in the 1990s but extended to the entire world"). In this scenario, trade implodes and capital flows to emerging markets dry up, leaving developing countries unable to pursue stimulus programs or cover their balance of payments. Sachs saw South Africa as relatively shielded from these dangers, citing, for example, the possibility of a \$5 billion World Bank loan to the power sector. However, other African countries are very exposed.

14. (C) Sachs was especially concerned about the rise of joblessness and protectionism in the U.S. and Europe. "Unemployment hasn't really bit the U.S. yet," he said, "but it will." He mentioned the "Buy America" parts of the U.S. stimulus package as a portent of protectionism to come.

Disappointment With G-20 Process

15. (C) Sachs described his worst-case scenario as a "real risk." Under the circumstances, South Africa strongly supports moves to increase the capital of the IMF and the regional development banks. "We can't wait for a big crisis to hit emerging markets before we get the IFIs in a position to respond immediately," he said. He argued that IFI governance reform is essential to draw increased capital contributions from countries like China. Sachs acknowledged that Federal Reserve swap arrangements with foreign central banks have eased liquidity conditions in many countries. However, he worried that such actions threatened to marginalize the IMF.

16. (C) Given these priorities, South Africa is somewhat disappointed in the G-20 process to date, Sachs said. He claimed that the G-20 is putting undue emphasis on global financial regulation reform. "This is a medium-term issue, not an urgent issue," he said. He said South Africa is "not

optimistic" about the upcoming London Summit.

Comment and Bio Note

¶7. (C) Sachs comes from an illustrious liberation struggle family. The biological son of South African Communist leader Joe Slovo, he was raised in exile by Albie Sachs (now a Justice of the South African Constitutional Court). Sachs is well-read in Marxist economics and sociology, and tends to be pessimistic about capitalism under the best of circumstances.

He may have been offering his personal views of the crisis, but post has little doubt these are shared by others in the Qbut post has little doubt these are shared by others in the SAG.

LA LIME